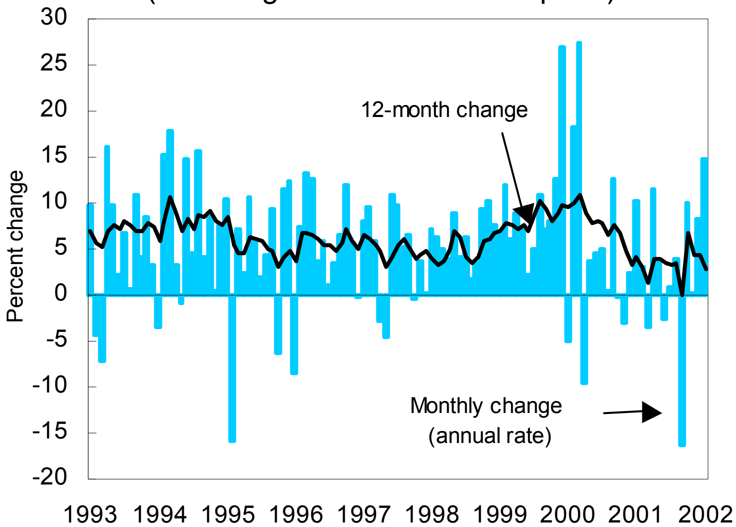
WEEKLY ECONOMIC DIGEST

JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – VICE CHAIRMAN

February 19, 2002

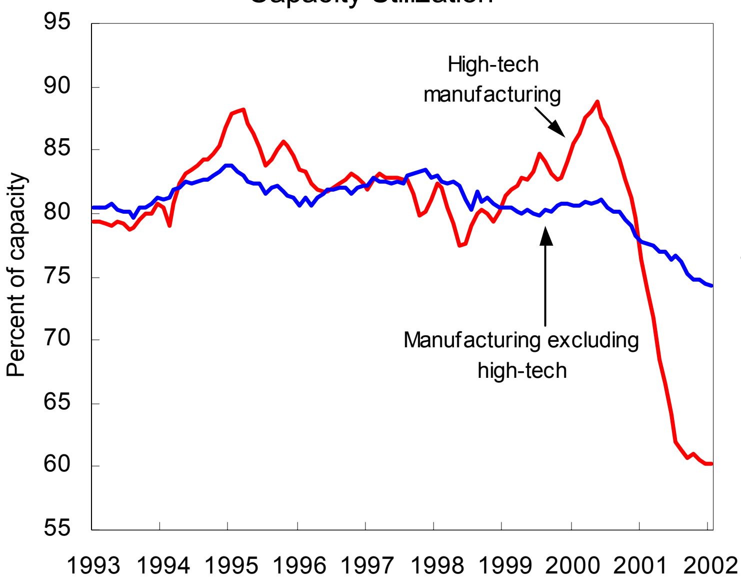
Economy's Slide May Be Over, But Signs of Strength Remain Scant

Retail and Food Services Sales
(excluding motor vehicles and parts)



Source: Census Bureau, U.S. Department of Commerce.

Capacity Utilization



Source: Board of Governors, Federal Reserve System.

- **Non-automotive retail sales rose in January**. Although overall retail and food services sales fell slightly last month, that decline reflected a third straight month of shrinking sales of motor vehicles and parts. Excluding automotive products, retail sales rose 1.2 percent in January—the largest monthly increase in 22 months—or 2.5 percent above the level that prevailed a year earlier. To be sure, growth of retail sales remained slow by historical standards.

- **Household spending remains subject to downside risks**. Relatively high levels of consumer debt and the possibilities of weaker growth in labor income and wealth lend considerable uncertainty to the outlook for household spending. Continuing claims for unemployment insurance remain high. According to preliminary results from the February survey of consumers by the University of Michigan, overall sentiment fell as consumers were more pessimistic with respect to economic conditions over the next year— particularly, their job prospects.

- **The inventory liquidation may be done**. Business inventories fell by 0.4 percent in December, the last month for which data are available. That small decline was in line with December's flat sales. As a result, the ratio of business inventories to sales held constant for the third straight month, suggesting that last year's massive inventory cutting is over. If so, declining inventory stocks (which subtracted more than a percentage point off the economy's growth rate in 2001) are not likely to continue to be as substantial a drag on overall growth as they have been. Moreover, with inventories low, strong gains in demand will result fairly quickly in commensurate increases in production.

- **Factory output was flat in January**. Following five straight months of declines, manufacturing production was unchanged last month and factory operating rates dropped only slightly. Eight of the nineteen industries constituting manufacturing showed increases in production in January. Defense and space equipment production grew at a brisk 1.2 percent pace, the largest increase in that category in more than a year. Production of high-technology goods also grew, but not by enough to boost capacity utilization for that sector. Overall, the signs remain encouraging that the long downturn in manufacturing may be over. At the same time, there are no signs yet that a strong recovery is underway.

Economy At A Glance	Jan	Dec	Nov	Oct	2001 Qtr 4	2001 Qtr 3	2001 Qtr 2	2001 Qtr 1	2001	2000
Economic Activity										
Real GDP (% growth)					0.2	-1.3	0.3	1.3	1.1	4.1
Industrial Production (% growth)	-1.2	-3.5	-4.7	-7.0	-6.9	-4.7	-5.9	-6.1	-3.7	4.5
Capacity Utilization (Level, %)	74.2	74.4	74.7	75.0	74.7	76.2	77.4	78.9	76.8	81.8
Civilian Unemployment Rate (Level, %)	5.6	5.8	5.6	5.4	5.6	4.8	4.5	4.2	4.8	4.0
Housing Starts (Thousands)*		1570	1625	1518	1571	1601	1623	1627	1606	1575
Real Disposable Personal Income (% growth)		5.6	1.4	-25.3	-7.8	12.3	2.4	2.7	3.6	3.5
Retail Sales (% growth)	-2.8	2.3	-29.7	109.8	12.2	-1.3	5.5	4.8	3.5	7.6
Personal Saving Rate (Level, %)		1.0	0.5	0.2	0.6	3.8	1.1	1.1	1.6	1.0
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)*		-2.4	0.0	-3.5	-0.4	0.7	3.1	4.2	2.8	3.4
Core CPI-U Inflation (% growth)*		1.2	4.9	2.4	2.7	2.5	2.6	3.2	2.7	2.4
Compensation per Hour (% growth)					4.1	3.6	4.1	4.5	4.1	4.4
Output per Hour (% growth)					3.5	1.1	2.1	-0.1	1.8	3.3
Financial Markets										
T-Bill Rate, 3-month (Level, %)	1.7	1.7	1.9	2.2	1.9	3.2	3.7	4.8	3.4	5.8
T-Note Rate, 10-years (Level, %)	5.0	5.1	4.7	4.6	4.8	5.0	5.3	5.1	5.0	6.0
Federal Funds Rate (Level, %)	1.8	1.8	2.1	2.5	2.1	3.6	4.3	5.6	3.9	6.2
Dow Jones Industrial Avg (Index Level)	9924	9980	9722	9221	9641	9934	10669	10513	10189	10735

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

* Subject to revision this week.

Major Economic News Due This Week:

- **New Residential Construction, January 2002** [Release: Tuesday, February 19]
- **Consumer Price Index, January 2002** [Release: Wednesday, February 20]
- **International Trade, December 2001** [Release: Thrusday, February 21]

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